

Message Text

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ACTION EB-03

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LIMDIS

FOR ASSISTANT SECRETARY ENDERS

E.O. 11652: GDS
TAGS: ENRG, BR
SUBJECT: CONSUMER-PRODUCER CONFERENCE ON OIL

REFS: A) STATE 42898; (B) BRASILIA 1429; (C) BRASILIA 1293

1. SUMMARY: ON FEBRUARY 24, DURING DISCUSSION WITH ECON COUNSELOR, AMBASSADOR CABRAL DE MELLO, CHIEF FONOFF ECONOMIC DEPARTMENT, EXPRESSED CONSIDERABLE RESERVE ATTAINABILITY OF OBJECTIVES ON PRICES FORTHCOMING PRODUCER-CONSUMER DIALOGUE. END SUMMARY.

2. DURING RECENT VISIT TO RIO CABRAL DE MELLO HELD DISCUSSIONS WITH PETROBRAS ON INTERNATIONAL PETROLEUM OUTLOOK AND GOB'S POSITION TOWARD CONSUMER-PRODUCER CONFERENCE. CABRAL DE MELLO SAID HE HAD FOUND PETROBRAS OFFICIAL VERY SKEPTICAL THAT CONSUMERS WILL BE ABLE TO NEGOTIATE SUBSTANTIAL PRICE REDUCTIONS. PETROBRAS OFFICIALS CONCEDE THAT THERE WILL BE LIMITED ADJUSTMENTS AND CORRECTIONS IN SPECIFIC PRICES, PARTICULARLY WHERE RELATIONSHIPS ARE OUT OF LINE; HOWEVER, THEY PERCEIVE NO CONVINCING ECONOMIC RATIONALE FOR A SUBSTANTIAL REDUCTION OF THE GENERAL LEVEL OF WORLD OIL PRICES. ACCORDING

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TO PETROBRAS ESTIMATES, COST PRICE OF MAJOR NEW SOURCES ..

SUCH AS NORTH SEA AND ALASKA OIL .. IS NOT FAR FROM \$10 A BARREL; THUS, MINIMUM IMPORT PRICE FOR INDUSTRIAL COUNTRIES, TO ACHIEVE THEIR ECONOMIC OBJECTIVE, WOULD HAVE TO BE OF THIS ORDER OF MAGNITUDE; IN TURN, MINIMUM IMPORT PRICE PRESUMABLY WOULD BE A PRINCIPAL BENCH MARK IN DISCUSSIONS ON PRICE BETWEEN CONSUMERS AND PRODUCERS.

3. COMMENT: WHILE CABRAL DE MELLO DID NOT SAY SO EXPLICITLY, THE PETROBRAS ANALYSIS WILL INCREASE THE RESERVE AND CAUTION WITH WHICH GOB WILL APPROACH FORTHCOMING CONFERENCE. TO OVERCOME THESE MISGIVINGS (WHICH REINFORCE IMPORTANT POLITICAL CONCERNS) IT WOULD BE DESIRABLE THAT EMBASSY BE ABLE TO SHARE, IF NECESSARY ON CONFIDENTIAL BASIS, SOME OF RESULTS AND SUBSTANTIVE REASONING OF US STUDIES BEARING ON THIS QUESTION.

4. REFTEL A JUST RECEIVED. PARAS 1, 2 AND 3 REFTEL A ALREADY PASSED ON TO GOB AS REPORTED REFTEL C, WHICH ALSO SUMMARIZES PRELIMINARY GOB REACTION TO DAKAR CONFERENCE.

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